


**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**



Office of Integrity and Oversight

**MEMORANDUM**

**TO:** Stephen M. Cordi, Deputy CFO  
Office of Tax and Revenue

**FROM:** William J. DiVello, Executive Director  
Office of Integrity and Oversight 

**DATE:** April 20, 2012

**SUBJECT:** Fraud Follow-up Report: Individual Income Tax Refunds Issued Fraudulently (IS:0011-0088-A)

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This report summarizes the status of prior audit recommendations provided to the Office of Tax and Revenue (OTR) in the Office of Integrity and Oversight's (OIO) report issued September 20, 2011, "Fraud Follow-up Report: Individual Income Tax Refunds Issued Fraudulently." The OIO issued this memorandum report to the OTR to determine the actions taken by the agency to address the breach of internal controls within the Compliance Administration adjustment unit. This breach resulted in an employee's ability to fraudulently receive over \$400,000 in individual income tax refunds. As part of this report, OIO included a listing of four prior OIO reviews which reported on internal control weaknesses in the tax system.

On April 3, 2012, the OTR provided the status of prior OIO review audit recommendations. OTR's response to a draft of this report generally meets the intent of the recommendations contained in the prior OIO reports. For report IA:OTR:2904:C08 dated March 23, 2009, OTR can further improve its control environment by implementing certain additional management reviews. The OTR response in its entirety is attached (Exhibit 1).

**PRIOR OIO AUDIT REPORTS**

**Management Alert: Integrated Tax Systems Systemic Weaknesses Hamper Internal Controls**

In this management alert dated January 31, 2008, the Office of Integrity and Oversight cautioned the OTR that there were inadequate controls over the ability to make on-line adjustments without management approval. Additionally, refunds that are produced as a result of these on-line adjustments

are not reviewed by management. We recommended the OTR review the entire adjustment process to determine what changes could be made to improve the internal controls.

**Agency Response:** OTR has revamped the adjustment process and approval procedures for line item adjustments throughout the agency. Daily reports are reviewed by supervisors and the review is documented.

**OIO Comment:** We consider OTR's action responsive to this recommendation.

**Memorandum: Review of Employee's Activity in ITS based on Dummy Account Alert (IA:OTR:2904:M02)**

In this memorandum dated February 27, 2009, the OIO found that an employee was able to make inappropriate adjustments in the system without managerial oversight. We found that the lack of managerial oversight allowed excessive privileges in ITS. As a result, we strongly recommended that the RPA Acting Director develop stringent procedures for adjustments to taxpayer accounts ensuring that there are controls in place throughout the process. The procedures should include adequate and appropriate managerial reviews.

**Agency Response:** OTR has made significant changes to the processes in the RPA area including the elimination of all but two dummy accounts, necessary to post remittances that cannot be immediately processed. Employees in RPA have had modifications to their privileges in ITS to restrict access.

**OIO Comment:** We consider OTR's action responsive to this recommendation.

**Memorandum: Results of our Review of OTR Refunds (IAOTR:2807:M04)**

In this memorandum dated March 13, 2009, the OIO found that there was a lack of review of refunds less than \$10,000 which left the agency vulnerable to error and fraud. We recommended OTR incorporate a review of refunds less than \$10,000 on a sample basis as part of its effort to safeguard the District's assets.

**Agency Response:** OTR has implemented a sampling of refunds less than \$10,000 on a daily basis as possible based on all refund volumes. OTR has recently added an FTE to the refund review group in RAA to increase the ability to sample more refunds.

**OIO Comment:** We consider OTR's action responsive to this recommendation.

**Memorandum: Review of Audit Adjustments User Rights in ITS (IA:OTR:2904:C08)**

In this memorandum dated March 23, 2009, the OIO found that audit assistants were not technically proficient to enter audit adjustments. We recommended that the Compliance Administration create a group of technically trained auditors enter the adjustments after the adjustments have been reviewed in Review and Conference. This would allow audit staff to focus on their audits and decrease the number of staff posting to the system. We recommended the audit division develop written policies and procedures documenting the adjustment process to ensure consistency and uniformity throughout the Audit Division and Compliance Administration. We also recommended the review of management reports to identify the status of cases in the case management system to allow for follow-up actions and to look for unusual adjusted items.

**Agency Response:** The OTR has implemented this recommendation into their policies and procedures. A separate adjustment group was created in compliance to make all adjustments into the system after they have been through review and conference. This group is under the supervision of the Criminal Investigation Division to eliminate any conflicts for the adjusters. All adjustments by the adjustment staff are subject to review and are on the employee adjustment reports prepared daily. Management reviews the daily reports to look for unusual adjustment patterns.

**OIO Comment:** We consider OTR's action responsive to this recommendation; however, we recommend there be additional management review of adjustments to compare "requested" authorized adjustments to "actual" adjustments made in ITS to ensure any actions taken by adjustment employees were for legitimate requests. Additionally, we recommend management consider a review of adjustments on a regular basis, monthly to quarterly, to identify exceptions and patterns of unusual adjustments.

We appreciate your response to our request for the status of prior audit recommendations. Should you have any questions please contact me at (202) 442-6433 or your staff may contact Mohamed K. Yusuff, Director of Internal Audit at (202) 442-8240, or Tisha N. Edwards, Senior Audit Manager at (202) 442-6446.

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia  
Angell Jacobs, Chief of Staff, Office of the Chief Financial Officer (OCFO)  
Kathy Crader, Chief Risk Officer, OCFO  
Glen Groff, Director of Operations, OTR

Attachment

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## Exhibit 1: Office of Tax and Revenue Response

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF TAX AND REVENUE



Stephen M. Cordi  
Deputy Chief Financial Officer

### MEMORANDUM

**TO:** William J. DiVello, Executive Director  
Office of Integrity and Oversight

**FROM:** Stephen M. Cordi  
Office of Tax and Revenue

**DATE:** April 3, 2012

**SUBJECT:** "Fraud Follow-up Report: Individual Income Tax Refunds Issued Fraudulently"  
issued on September 20, 2011 (IS: 0011-0088)

This is an update to the four prior OIO reviews cited at the end of the finding.

#### Management Alert: Integrated tax Systems Systemic Weaknesses Hamper Internal Controls

In this management alert dated January 31, 2008, the Office of Integrity and Oversight cautioned the OTR that there were inadequate controls over the ability to make on-line adjustments without management approval. Additionally, refunds that are produced as a result of these on-line adjustments are not reviewed by management. We recommend the OTR review the entire adjustment process to determine what changes could be made to improve the internal controls.

- The OTR has completely revamped the adjustment process and approval procedures for line item adjustments throughout the agency. The ability to make line item adjustments has been severely curtailed in all administrations and in compliance, the major line item adjustment administration; a separate tightly controlled group has been established to make the actual approved adjustment. Throughout the OTR daily reports are produced documenting the adjustments made by employees the previous day. The daily reports are reviewed by the supervisors and the review is documented. Directors of the various administrations are required to ensure compliance with these procedures.

A final review of the refunds pending by revenue accounting before release adds an additional layer of review to detect any patterns suggesting fraudulent activity.

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**Memorandum: Review of Employee's Activity in ITS based on Dummy Account Alert (IA: OTR: 294:M02)**

In this memorandum dated February 27, 2009, the OIG found that an employee was able to make inappropriate adjustments in the system without managerial oversight. We found that the lack of managerial oversight allowed excessive privileges in ITS. As a result, we strongly recommended that the RPA Acting Director develop stringent procedures for adjustments to taxpayer accounts ensuring that there are controls in place throughout the process. The procedures should include adequate and appropriate managerial oversight.

- The OTR has made significant changes to the processes in the RPA area including the elimination of all but two dummy accounts, necessary to post remittances that cannot be immediately processed with the information provided, until the necessary research is completed to post them to the correct account. Employees in RPA have had modifications to their privileges in ITS to restrict their capabilities to those necessary for the position they are working. Also as stated in the response above the supervisor receives a daily adjustment report that they are required to review and document.

Again as a final review RAA reviews the pending refunds daily to detect fraudulent activity.

**Memorandum: Results of our review of OTR Refunds (IA/OTR: 2807:M04)**

In this memorandum dated March 13, 2009, the OIG found that there was a lack of review of refunds less than \$10,000 which left the agency vulnerable to error and fraud. We recommended OTR incorporate a review of refunds less than \$10,000 on a sample basis as a part of its effort to safeguard the District's assets.

- The OTR has implemented a sampling of refunds less than \$10,000 on a daily basis as possible based on all refund volumes. The refunds are also again subject to the RAA refund analysis program to detect fraudulent activities in the refunds past and present. OTR has recently added an FTL to the refund review group in RAA to increase the ability to sample more refunds.

**Memorandum: Review of Audit Adjustments User Rights in ITS (IA: OTR: 2904:C08)**

In this memorandum dated March 23, 2009, the OIG found that audit assistants were not technically proficient to enter audit adjustments. We recommended that the Compliance Administration create a group of technically trained auditors enter the adjustments after the adjustments have been reviewed in Review and Conference. This would allow audit staff to focus on their audits and decrease the number of staff posting to the system. We recommend the audit division develop written policies and procedures documenting the adjustment process to ensure consistency and

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uniformity throughout the Audit Division and Compliance Administration. We also recommended the review of management reports to identify the status of cases in the case management system to allow for follow-up actions and to look for unusual adjustment items.

- The OTR has implemented this recommendation into their policies and procedures. A separate adjustment group was created in compliance to make all adjustments into the system after they have been through review and conference. This group is under the supervision of the Criminal Investigation Division to eliminate any conflicts for the adjusters who are technical employees from audit and collection. Written policies and procedures were created and disseminated to the staff. All adjustments by the adjustment staff are subject to review and are on the employee adjustment reports prepared daily. Management reviews the daily reports to look for unusual adjustment patterns.

If you have any additional questions or concerns, please contact Glen Groff, Director of Operations, at 442-6499.